

North Dakota REV-E-NEWS



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MESSAGE FROM THE DIRECTOR

North Dakota Ranks First In Index of State Economic Momentum!

The September 2008 issue of State Policy Reports, published by the Federal Funds Information for States, once again ranks North Dakota first in the nation in terms of the Index of State Economic Momentum. The Index was developed by State Policy Reports and “ranks states based on their most recent performance in three key measures of economic vitality: personal income growth, employment growth and population growth.” The index is an average of the three components. The national average is set at zero and each state’s score is expressed as a percentage above or below the national average.

North Dakota’s index was 3.12, followed by Texas at 2.10, Wyoming at 1.91, South Dakota at 1.48, and Oklahoma at 1.02. North Dakota was one of only five states that exceeded the national average by more than 1 percent.

A closer look at each of the three components of the index shows where North Dakota has outperformed the rest of the nation. Personal income growth was measured from second quarter 2007 to second quarter 2008. During that time, personal income grew by an average of 5.21 percent nationally. Personal income in North Dakota grew an amazing 13.62 percent during that time, nearly double the pace of growth in Wyoming, which was ranked second with growth of 7.98 percent.

From August 2007 to August 2008, employment growth nationally was nonexistent at 0.0 percent. Twenty seven states added jobs during that time and twenty-three states showed a net loss of jobs. North Dakota ranked fourth in the nation with job growth of 1.6 percent. Texas, Wyoming, and South Dakota ranked first, second, and third, respectively.

In terms of population growth, North Dakota ranked below the national average of 1.0 percent with a change of .4 percent from 2006 to 2007. The report notes that “heretofore slow-growing states—such as North Dakota and Nebraska—may see their economic good fortune translate into increased in-migration.”

Despite being below the national average in population growth, the composite index looks at the average of the three components, which for North Dakota translated into a first place ranking with a composite index of 3.12.

The State Policy Reports ranking reaffirms our view of a healthy, growing North Dakota economy. However, as the national economy continues to sink deeper into recession, we need to be cautious as we look to the future. The U.S. Census Bureau recently released a report on retail trade and food services. The advance estimate of U.S. retail and food services sales for September showed a decrease of 1.2 percent from the previous month and 1.0 percent from September 2007. The National Association of State Budget Officers (NASBO) reported that this is the third consecutive month of falling retail sales, the first time that has occurred according to government records that go back to 1992. NASBO noted that “this decrease could result in substantially lower sales tax revenues for states....”

The potential long-term impacts to North Dakota of the national recession, along with a significant drop in oil prices and a weakening in agricultural commodity prices, give reason to look forward with caution. However, we can see proof of the state’s current “economic momentum” in the strong state revenue collection so far this biennium. Through September, tax revenues are 17.9 percent higher than projected, led by growth in sales, motor vehicle, and income tax collections.

OIL ACTIVITY

The revised forecast for the 2007-09 biennium is based on fiscal year 2009 oil production averaging approximately 160,000 barrels per day and price declining from \$110 per barrel at the start of the fiscal year to \$95 per barrel by June 2009. Currently, the price of North Dakota crude has fallen to around \$60 per barrel. Production continues to set new records and increased in July to 177,700 barrels per day. The current rig count is 85 rigs, 30 more than were operating in the state one year ago. Price, production, and drilling activity are summarized on the following table:



	Aug 2008	July 2008	June 2008
ND sweet crude price per barrel	\$126.54	\$125.10	\$125.62
Production (barrels/day)	177,700	172,900	166,200
Drilling permits	76	83	90
Producing wells	4,154	4,102	4,056
Rig count	82	76	75

Comments or Questions?

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STATEMENT OF GENERAL FUND REVENUES AND FORECASTS Compared to the Legislative Forecast 2007-09 BIENNIUM September 2008

REVENUES AND TRANSFERS	FISCAL MONTH				BIENNIUM TO DATE			
	April 2007 Leg. Forecast	Actual	Variance	Percent	April 2007 Leg. Forecast	Actual	Variance	Percent
Sales Tax	39,851,000	55,472,878	15,621,878	39.2%	558,144,000	641,629,441	83,485,441	15.0%
Motor Vehicle Excise Tax	5,465,000	6,273,554	808,554	14.8%	71,753,000	85,292,867	13,539,867	18.9%
Individual Income Tax	9,999,000	18,936,339	8,937,339	89.4%	299,318,000	362,023,792	62,705,792	20.9%
Corporate Income Tax		531,456	531,456	100.0%	78,483,000	142,892,376	64,409,376	82.1%
Insurance Premium Tax	728,279	1,160,192	431,913	59.3%	32,026,842	38,186,733	6,159,891	19.2%
Financial Institutions Tax		48,391	48,391	100.0%	4,700,000	6,547,557	1,847,557	39.3%
Oil & Gas Production Tax*					39,839,000	39,309,315	(529,685)	-1.3%
Oil Extraction Tax*					31,161,000	31,690,685	529,685	1.7%
Gaming Tax	124,564	28,826	(95,738)	-76.9%	12,231,451	12,308,209	76,758	0.6%
Lottery					5,577,500	5,300,000	(277,500)	-5.0%
Cigarette & Tobacco Tax	2,173,000	2,062,518	(110,482)	-5.1%	30,295,000	28,785,473	(1,509,528)	-5.0%
Wholesale Liquor Tax	541,000	542,896	1,896	0.4%	7,988,000	8,778,351	790,351	9.9%
Coal Conversion Tax	2,082,000	2,204,671	122,671	5.9%	30,052,000	30,277,629	225,629	0.8%
Mineral Leasing Fees	(500,000)	(334,681)	165,319	-33.1%	8,150,000	14,931,543	6,781,543	83.2%
Departmental Collections	2,948,000	5,443,951	2,495,951	84.7%	34,114,000	37,905,612	3,791,612	11.1%
Interest Income	1,375,000	1,518,397	143,397	10.4%	21,545,000	27,227,356	5,682,356	26.4%
Bank of North Dakota-Transfer								
State Mill & Elevator-Transfer								
Oil tax trust fund-Transfer					115,000,000	115,000,000		0.0%
Other Transfers					796,285	846,216	49,931	6.3%
Total Revenues and Transfers	64,786,843	93,889,386	29,102,543	44.9%	1,381,174,078	1,628,933,153	247,759,075	17.9%

* Oil and gas production and extraction tax collections totaled \$33.5 million in September. Because the \$71.0 million statutory cap for the 2007-09 biennium has been reached, no additional oil tax collections will be deposited in the general fund during the 2007-09 biennium. Through September, oil tax collections totaling \$308.7 million have been transferred, or are available for transfer, to the permanent oil tax trust fund and are not reflected on this report.

STATEMENT OF GENERAL FUND REVENUES AND FORECASTS Compared to the Previous Biennium Revenues 2007-09 BIENNIUM September 2008

REVENUES AND TRANSFERS	FISCAL MONTH				BIENNIUM TO DATE			
	September 2006	September 2008	Variance	Percent	2005-07	2007-09	Variance	Percent
Sales Tax	26,021,665	55,472,878	29,451,213	113.2%	503,596,345	641,629,441	138,033,096	27.4%
Motor Vehicle Excise Tax	5,237,832	6,273,554	1,035,721	19.8%	78,422,225	85,292,867	6,870,643	8.8%
Individual Income Tax	17,091,314	18,936,339	1,845,025	10.8%	336,468,027	362,023,792	25,555,765	7.6%
Corporate Income Tax	17,454,445	531,456	(16,922,989)	-97.0%	129,708,758	142,892,376	13,183,618	10.2%
Insurance Premium Tax	706,913	1,160,192	453,279	64.1%	30,373,932	38,186,733	7,812,801	25.7%
Financial Institutions Tax	104,902	48,391	(56,511)	-53.9%	4,280,824	6,547,557	2,266,733	53.0%
Oil & Gas Production Tax*					45,970,447	39,309,315	(6,661,131)	-14.5%
Oil Extraction Tax*					25,029,553	31,690,685	6,661,131	26.6%
Gaming Tax	28,030	28,826	796	2.8%	11,191,012	12,308,209	1,117,196	10.0%
Lottery					6,300,000	5,300,000	(1,000,000)	-15.9%
Cigarette & Tobacco Tax	2,098,218	2,062,518	(35,700)	-1.7%	28,200,662	28,785,473	584,811	2.1%
Wholesale Liquor Tax	566,347	542,896	(23,451)	-4.1%	8,088,220	8,778,351	690,131	8.5%
Coal Conversion Tax	2,837,242	2,204,671	(632,572)	-22.3%	31,165,958	30,277,629	(888,329)	-2.9%
Mineral Leasing Fees	(914,289)	(334,681)	579,608	-63.4%	8,486,484	14,931,543	6,445,059	75.9%
Departmental Collections	3,917,548	5,443,951	1,526,403	39.0%	32,497,888	37,905,612	5,407,724	16.6%
Interest Income	1,790,267	1,518,397	(271,870)	-15.2%	16,146,583	27,227,356	11,080,773	68.6%
Bank of North Dakota-Transfer								
State Mill & Elevator-Transfer								
Oil Tax Trust Fund-Transfer					30,000,000	115,000,000	85,000,000	283.3%
Other Transfers	1,021		(1,021)	-100.0%	9,443,735	846,216	(8,597,519)	-91.0%
Total Revenues and Transfers	76,941,456	93,889,386	16,947,931	22.0%	1,335,370,651	1,628,933,153	293,562,502	22.0%

* Oil and gas production and extraction tax collections totaled \$33.5 million in September. Because the \$71.0 million statutory cap for the 2007-09 biennium has been reached, no additional oil tax collections will be deposited in the general fund during the 2007-09 biennium. Through September, oil tax collections totaling \$308.7 million have been transferred, or are available for transfer, to the permanent oil tax trust fund and are not reflected on this report.

VARIANCES

September 2008 revenues were \$93.9 million, considerably more than projected in either the original or revised forecast. September revenues were \$29.1 million more than projected in the original legislative forecast and \$22.1 million more than projected in the revised forecast. Since July, when the revised 2007-09 forecast was completed, actual collections have varied from the revised forecast by less than 1 percent. Notable variances for the month are as follows:

- Sales tax** collections for the month of September exceed the original forecast by \$15.6 million. Contrary to the national economy, which has been hindered by a lack of consumer confidence and a slowdown in consumer spending, taxable sales and purchases in North Dakota have grown faster than anticipated. Biennium to date sales tax collections exceed the legislative forecast by 15.0 percent and the 2005-07 biennium by 27.4 percent.
- Motor vehicle excise tax** collections continue to exceed the forecast. Collections exceed the original forecast by \$800,000 for the month and by \$13.5 million for the biennium to date. Following steady declines during the 2005-07 biennium, collections are currently 8.8 percent higher than last biennium.
- Individual income tax** collections exceeded the original forecast by \$8.9 million. A significant portion of this variance appears to be a result of timing. August collections fell short of the original forecast by \$7.7 million. Biennium to date collections exceed the original forecast by \$62.7 million.
- Corporate income tax** collections continue to grow at a rate that far exceeds the original forecast. For the month, \$0 was anticipated due to the fact that collections during the first quarter of each fiscal year are typically deposited into the refund reserve account to allow the payment of refunds when claimed. However, because September collections were higher than anticipated, a portion was deposited into the general fund. Biennium to date collections are \$64.4 million higher than forecast and \$13.2 million higher than the record collections the state realized during the 2005-07 biennium.
- Oil and gas tax** collections for the month were \$33.5 million, \$25.3 million more than anticipated in the original forecast and \$600,000 more than anticipated in the revised forecast. Because the \$71.0 million general fund cap was reached in November 2007, the entire \$33.5 million will be deposited in the permanent oil tax trust fund. The current price of North Dakota crude has fallen to approximately \$60 per barrel and August production averaged nearly 178,000 barrels per day, setting a new record for North Dakota.
- Departmental collections** exceeded the forecast by \$2.5 million in September. This variance was primarily attributable to a larger than anticipated transfer from the insurance regulatory trust fund. Pursuant to NDCC 26.1-01-07.1, any balance exceeding \$1.0 million as of the end of a fiscal year must be transferred to the general fund. The budgeted transfer was \$2.2 million; the actual transfer was \$3.9 million.

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